

Message Text

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ACTION EUR-12

INFO OCT-01 IO-14 ISO-00 AID-05 CEA-01 CIAE-00 COME-00
EB-08 FRB-01 INR-10 NSAE-00 SP-02 STR-07 LAB-04
SIL-01 OMB-01 AGRE-00 TRSY-06 SS-15 /088 W
-----061746 101832Z /47

R 101644Z MAY 78
FM AMEMBASSY BRUSSELS
TO SECSTATE WASHDC 6476
INFO ALL EC CAPITALS
USMISSION GENEVA

UNCLAS SECTION 01 OF 02 BRUSSELS 08986

USEEC

PASS AGRICULTURE ELECTRONICALLY
PARIS ALSO FOR USOECD
GENEVA ALSO FOR USMTN

E.O. 11652: N/A
TAGS: EAGR, EEC
SUBJ: SPEECH DELIVERED BY COMMISSIONER GUNDELACH TO FEFAC

1. ON APRIL 28, 1978, COMMISSIONER GUNDELACH DELIVERED A
SPEECH AT THE 21ST GENERAL MEETING OF FEFAC (EUROPEAN FEED
MANUFACTURERS' ASSOCIATION), ENTITLED: THE CAP AND NEW
CHALLENGES. THE SPEECH CONTAINED A NUMBER OF INTERESTING
FEATURES, HIGHLIGHTED BELOW, WHICH ARE RELATED TO THE U.S.
AGRICULTURAL TRADE INTEREST. THE FULL TEXT OF THE SPEECH
IS BEING MAILED TO ED CASEY, EUR/RPE AND HOMER SABATINI,
FAS.

2. COMMISSIONER GUNDELACH LAMENTED THE FAILURE TO REACH
DECISION ON 1978/79 PRICES AT THE APRIL 24-27 MEETING OF
THE COUNCIL OF AGRICULTURAL MINISTERS. HE IMPLIED THAT
THIS WAS THE FAULT OF THE COUNCIL. ACCORDING TO GUNDELACH,
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THE CHALLENGE FACING THE CAP IS QUOTE HOW CAN WE ADAPT TO
THE ECONOMIC FORCES THAT THREATEN THE POLICY'S FUTURE
UNQUOTE. THIS CHALLENGE IS POSED NOT ONLY FOR MILK BUT
ALSO FOR SUGAR, WINE, OLIVE OIL AND GRAINS. IT IS ALSO
POSED BY AGRO-MONETARY DIFFICULTIES.

3. DAIRY: DAIRY OUTPUT IS EXPECTED TO BE 17 PER CENT

ABOVE MARKET REQUIREMENTS (EXCLUDING SUBSIDIZED DISPOSAL) THIS YEAR, COMPARED TO 10 PER CENT IN 1975. FURTHERMORE, THE EC MUST TAKE ACCOUNT OF THE FOLLOWING QUOTE TIMEBOMBS UNQUOTE THAT ARE TICKING AWAY BENEATH THE INDUSTRY:

A. THE ELIMINATION OF MONETARY COMPENSATORY AMOUNTS IN THE U.K., ITALY, FRANCE, AND IRELAND WILL PROVIDE EXTRA STIMULUS TO PRODUCERS IN THOSE COUNTRIES AND A BLOW TO CONSUMERS.

B. THERE IS STILL GREAT POTENTIAL FOR HIGHER MILK YIELDS IN THE COMMUNITY. THEY COULD GO UP ANOTHER 18 PER CENT BY MERELY IMPROVING THE EXISTING HERD.

C. MUCH OF EC MILK PRODUCTION IS BASED ON U.S. SOY-BEAN MEAL. THE DECLINING DOLLAR BRINGS A QUOTE DOUBLE DISADVANTAGE UNQUOTE AND SOYA BECOMES MORE ATTRACTIVE TO EC MILK PRODUCERS AND HELPS THEM TO RAISE OUTPUT; AT THE SAME TIME, ITS LOWER PRICE MAKES SALES OF COMPETING NFDM MORE DIFFICULT.

4. GRAINS: EC FEED COMPOUNDERS ARE SWITCHING FROM HOME-GROWN CEREALS TO CHEAPER IMPORTED SUBSTITUTES, MANY OF WHICH ARE BOUND IN GATT. MANIOC IS THE MOST SPECTACULAR EXAMPLE, BUT IMPORTS OF CEREAL SUBSTITUTES LIKE BRAN AND CITRUS PULP ARE ALSO INCREASING. IN 1976, IMPORTS OF CEREAL SUBSTITUTES EXCEEDED SEVEN MILLION TONS IN BARLEY UNCLASSIFIED

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EQUIVALENT. IN RELATION TO THIS EROSION OF THE INTERNAL FEEDGRAIN MARKET, GUNDELACH ALSO MAKES THE FOLLOWING STATEMENT QUOTE WHEN I SEE THAT THE VALUE OF THE U.S. DOLLAR HAS FALLEN AND WHEN SECRETARY BERGLAND TELLS ME THAT THE U.S. HOPES TO EXPORT MORE GRAIN AND MORE SOYA, THEN I BECOME UNEASY UNQUOTE.

5. HOW SHOULD THE COMMUNITY RESPOND? GREATER PROTECTION AGAINST LOW PRICED IMPORTS SUCH AS SOYBEAN MEAL AND CEREAL SUBSTITUTES ARE NOT THE RIGHT ANSWER. A MORE CORRECT COURSE IS TO MAKE EC PRODUCTS MORE ATTRACTIVE IN THE MARKETPLACE AS IS CURRENTLY BEING DONE IN THE CASE OF LIQUID SKIM MILK AND NFDM (COMMENT: THROUGH INCREASED SUBSIDIZATION). HOWEVER, THE IMPORT ARRANGEMENTS FOR SOYBEAN MEAL AND CEREAL SUBSTITUTES ARE NOT SACROSANCT. THEY NEED TO BE CHANGED IN SOME RESPECTS. GUNDELACH WOULD LIKE TO SEE THE WIDE VARIATIONS IN SOYBEAN PRICES FLATTENED OUT SOMEWHAT. ALSO, HE SAYS THAT THE IMPORT ARRANGEMENTS FOR SOME CEREAL SUBSTITUTES DO NOT PROVIDE THE PROTECTION THEY WERE INTENDED TO GIVE QUOTE SOME CHANGES NEED TO BE MADE THEREFORE BUT THERE CAN BE NO QUESTION OF A WHOLESAL ATTACK ON THE IMPORT OF THESE

SUBSTITUTES UNQUOTE. GUNDELACH ALSO MENTIONS THE NEED TO OPEN UP THIRD COUNTRY MARKETS TO EC PRODUCE. IN PARTICULAR QUOTE IT IS UNJUST FOR THE AMERICANS TO EXPLOIT US AS A MARKET FOR THEIR VEGETABLE FEEDS AND PROTEINS WHILE REFUSING TO TAKE OUR ANIMAL FATS AND PROTEINS IN EXCHANGE UNQUOTE.

6. IN SUMMING UP, GUNDELACH NOTES THE NEED TO ADAPT THE EC'S INTERNAL MARKET ORGANIZATION SO THAT MARKET FORCES MAY WORK MORE FREELY. HE CITES THE SO-CALLED SILO SYSTEM

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FM AMEMBASSY BRUSSELS

TO SECSTATE WASHDC 6477

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FOR GRAIN PRICES AS A STEP IN THE RIGHT DIRECTION.

QUOTE BUT THE ROCK ON WHICH ALL THESE ADAPPTIONS MUST BE BUILT IS A POLICY OF PRICE MODERATION UNQUOTE. EXCESSIVE PRICE INCREASES: (A) FURTHER ENCOURAGE THE USE OF SUBSTITUTES; (B) REINFORCE THE ILLUSION HELD BY MANY FARMERS THAT EC MARKETS NEED HIGHER PROTECTION; AND (C) RAISE THE COST OF DISPOSING OF EC SURPLUSES. HINTON

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